STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

WASATCH CREST MUTUAL INSURANCE CO.

OF

SALT LAKE CITY, UTAH

As of

December 31, 1998

TABLE OF CONTENTS

Salt Lake City, Utah
April 27, 2000

Honorable Alfred W. Gross, Chairman
NAIC Financial Condition (EX4) Subcommittee
Insurance Commissioner
State of Virginia
Richmond, VA

Honorable Charles R. Cohen
Secretary, Western Zone NAIC
Director of Insurance
State of Arizona
Phoenix, AZ

Honorable Merwin U. Stewart
Insurance Commissioner
State of Utah Insurance Department
Salt Lake City, UT

Dear Sirs:

Pursuant to your instructions and in compliance with the insurance laws of the State of Utah, the rules and regulation of the Utah Insurance Department, and the policies and procedures adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the records, business affairs, and financial condition of the

WASATCH CREST MUTUAL INSURANCE CO.
Salt Lake City, Utah

hereinafter referred to as such or as the "Company."

SCOPE OF EXAMINATION

Period Covered

The Company was previously examined as of December 31, 1994, by representatives of the Utah Insurance Department. The current examination was conducted by representatives of the Utah Insurance Department and covered the period from January 1, 1995, to and including December 31, 1998, and included any material, subsequent transactions or events that were noted during the examination.

Procedures Employed

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period, and a determination of its financial condition as of December 31, 1998. All phases of the examination were conducted to determine compliance with generally accepted regulatory accounting standards and procedures, and in conformity with the insurance laws of the State of Utah and the insurance rules promulgated by the Utah Insurance Department. Although the examination was full scope in nature, its purpose was not to detect anything of a fraudulent nature.

Status of Adverse Findings in Previous Report of Examination

Disclosures in the prior report of examination were resolved during the period under examination.

HISTORY

General

The Company was incorporated under the laws of the State of Utah as a mutual insurance company on September 30, 1976. The Company's Articles of Incorporation specify that the primary purpose of the organization is "[t]o engage in, render and transact all lines and forms of casualty insurance and related lines of insurance business."

From 1976 to 1989, the Company's major insured was Utah Power and Light Company, which, in 1989, merged into PacifiCorp. In February 1993, direction and management of the Company, then Energy Mutual Insurance Company, was relinquished by PacifiCorp, and the Company began issuing insurance policies to policyholders other than PacifiCorp.

By amendment to its articles of incorporation dated November 4, 1994, the name of the Company was changed from Energy Mutual Insurance Company to Wasatch Crest Mutual Insurance Co.

Effective January 1, 1997, the Company acquired all of the outstanding common stock of Transunion Casualty Insurance Company an Iowa domiciled property and casualty insurance company, from AUSA Holding Company. Effective January 1, 1998, Transunion Casualty Insurance Company acquired all of the outstanding stock of Wasatch Fire Insurance Company, a Utah domiciled property and casualty insurer, from the Wasatch-Ohio Group.

Effective March 25, 1998, Transunion Casualty was re-named Wasatch Crest Casualty Insurance Company. Effective March 27, 1998, Wasatch Fire was merged into Wasatch Crest Casualty.

Effective June 30, 1998, Wasatch Crest Group, Inc., an investment holding company, acquired all of the outstanding stock of First Continental Life & Accident Insurance Company and Wasatch Crest Casualty Insurance Company from the Company in exchange for shares of Wasatch Crest Group's Class A, Class B-1 and Class C common stock. Concurrent with this exchange, the Class B-1 shares were sold for cash in the amount of $4,400,000. Effective October 31, 1998, Wasatch Crest Group acquired all of the outstanding shares of common stock of Utah Home Fire Insurance Company, a Utah domiciled property and casualty insurer, from the Deseret Management Corporation. Utah Home Fire's name was changed to Wasatch Crest Insurance Company, also effective October 31, 1998.

Membership

Policyholders are members of this mutual insurer.

Dividends to Policyholders

The Company has not paid any dividends to policyholders during the period covered by this examination.

Management

The Company's articles of incorporation provide that its affairs shall be administered by its board of directors consisting of not less than five nor more than nine individuals.

Board of Directors

The following were serving as members of the board of directors as of December 31, 1998:

Director	Mailing Address	Principal Occupation
Orrin T. Colby Jr.	South Salt Lake City, Utah	Chairman of Board and Chief Executive Officer-Wasatch Crest Mutual Ins. Co. and affiliates
Gordon B. Boyle	Murray, Utah	President and Chief Operating Officer-Wasatch Crest Mutual Ins. Co. and affiliates
Floyd A. Petersen	Salt Lake City, Utah	Retired-CPA
Verl R. Topham	Salt Lake City, Utah	Senior Vice President and General Counsel, PacifiCorp
Richard A. Veed	Hinsdale, Illinois	Managing Partner AAM Capital Partners, LP
Harold C. Yancey	Centerville, Utah	Chairman of Board, Beneficial Life Insurance Company

Officers

Those officers elected by the board of directors and serving as of December 31, 1998, were:

Name	Office
Orrin T. Colby Jr.	Chairman and Chief Executive Officer
Gordon B. Boyle	President and Chief Operating Officer
William J. Worsley	Vice President-Finance, Secretary and Treasurer

Committees of Directors

Appointment of board committees as of December 31, 1998, were:

Executive Committee:	Audit Committee:
Orrin T. Colby Jr. - Chairman	Harold C. Yancey - Chairman
Gordon B. Boyle	Floyd A Petersen
Harold C Yancey	Verl R. Topham

Investment Committee:

Gordon B. Boyle - Chairman
Floyd A Peterson
Vacancy

Compensation Committee:

Verl R. Topham - Chairman
Orrin T. Colby Jr.
Floyd A Peterson

Gordon Boyle stepped down as a Director, President, and Committee member effective August 1, 1999.

Conflict of Interest

The Company had a written procedure for the disclosure to its board of directors of any conflict of interest or affiliation on the part of its officers and directors which is in or likely to conflict with the official duties of such person. A review of the signed forms did not indicate any items that may have constituted a conflict.

Corporate Records

A review was made of the corporate records for the period covered by this examination. The minutes reviewed indicated that the deliberation and actions of the various corporate bodies were in compliance with the Utah Insurance Code. There were no changes to the articles of incorporation.

As of September 1, 1998, the bylaws were amended and approved by the board of directors. They were amended to conform with the bylaws of other affiliated companies.

Acquisitions, Mergers, Dissolutions, Purchases or Sales through Reinsurance

Effective January 1, 1997, the Company acquired all of the outstanding common stock of Transunion Casualty Company. Effective January 1, 1998, Transunion Casualty Company acquired all of the outstanding stock of Wasatch Fire Insurance Company Insurance Company. Transunion Casualty was subsequently renamed Wasatch Crest Casualty Insurance Company. Effective March 27, 1998, Wasatch Fire was merged into Wasatch Crest Casualty.

Effective June 30, 1998, Wasatch Crest Group acquired all of the outstanding stock of First Continental Life and Accident Insurance Company and Wasatch Crest Casualty Insurance Company from the Company in exchange for shares of Wasatch Crest Group Class A, Class B-1 and Class C common stock. Effective October 31, 1998, Wasatch Crest Group acquired all of the outstanding shares of common stock of Utah Home Fire Insurance Company.

AFFILIATED COMPANIES

As of December 31, 1998, the Company was a member of an insurance holding company system and the Company was considered the ultimate controlling entity.

As of December 31, 1998, the Company owned 100% of the shares of Wasatch Crest Group's Class A and C common stock. Outside investors owned 100% of the issued Class B-1 and Class B-2 shares. The Company owned 1.0 million of Class A shares of Wasatch Crest Group or 34% of the voting rights, and 5.3 million of Class C shares, or 33% of the voting rights for a total of 67% of the voting rights. This gave the Company control of Wasatch Crest Group.

WCG Investment, LP owned 54% of the Class B-1 common and Swiss Reinsurance Corporation owned 46%, or 33% of the voting rights. Chase Equity Associates, LP owned 100% of the Class B-2 non-voting shares.

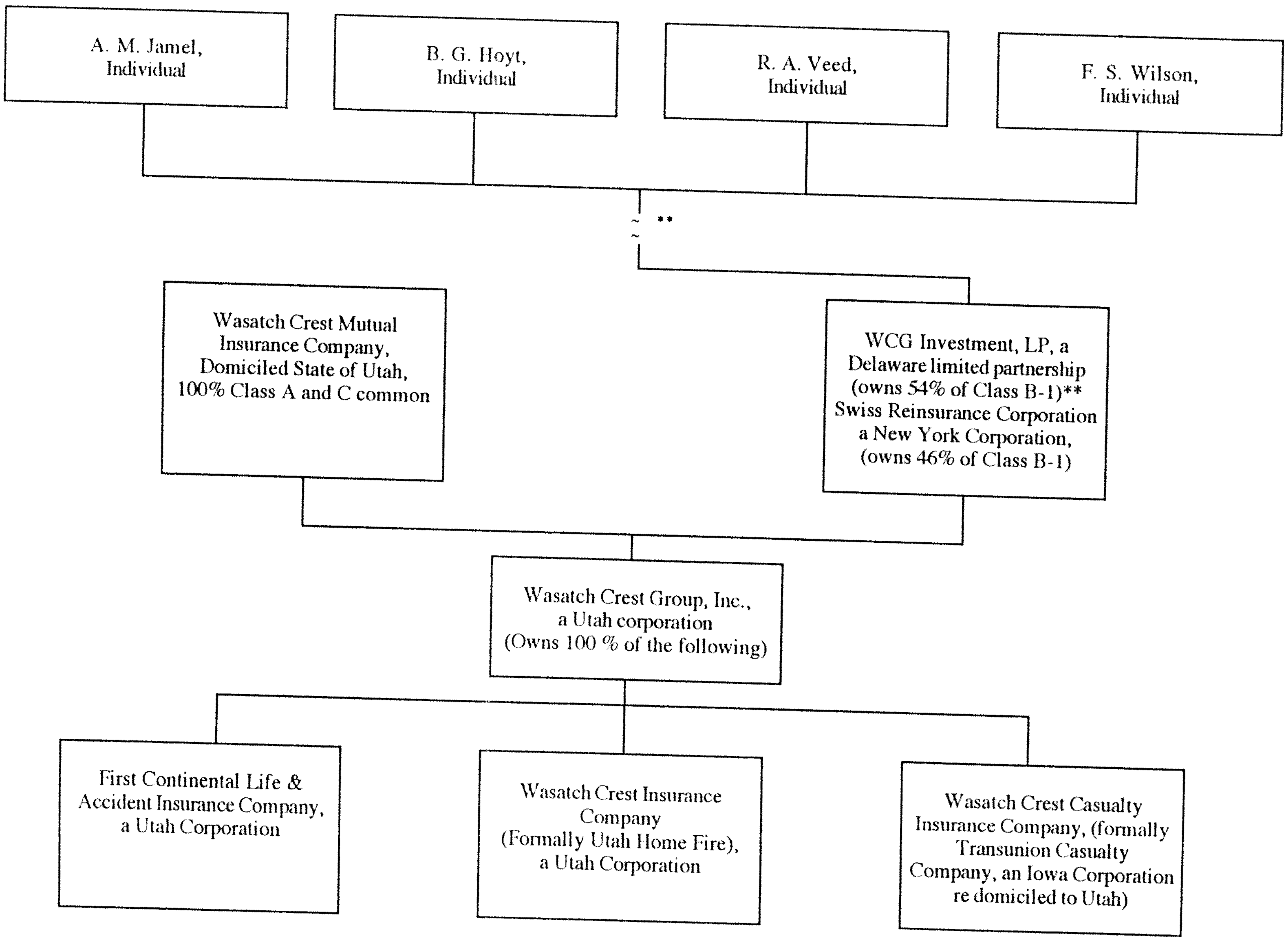
The amended articles of incorporation of Wasatch Crest Group set forth the classes of capital stock which Wasatch Crest Group has authority to issue are Class A, Class B-1, Class B-2, Class C common stock, which are convertible voting and non-voting shares, and Class D common stock. The Class B stockholders have an option on which on or after the earlier of a material loss event, or December 31, 2003, to convert their shares into Class D common stock. The Class B stockholders also have the right to require all holders of Class A, B, and C common shares to convert all of their shares into Class D shares. Each Class A, B, or C stock has a liquidation value calculated on a formula.

A material loss event means, commencing on December 31, 1997, a reported cumulative net operating losses in excess of $3,000,000 by Wasatch Crest Group and its subsidiaries, as calculated on a consolidated basis in accordance with generally accepted accounting principles, applied on a basis consistent with prior years, without giving any effect to realized or unrealized capital gains or losses on the sale of invested assets.

The Company owned 6,300,000 common shares of the 21,000,000 shares issued and outstanding or 30% of Wasatch Crest Group.

Wasatch Crest Insurance Company, an insurance subsidiary, was a property and casualty insurance company licensed to write disability, property, liability, marine and transportation, workers compensation, vehicle liability, and professional liability insurance in the State of Utah. Wasatch Crest Insurance's business was in a run off mode as of December 31, 1998. Wasatch Crest Casualty Insurance Company, an insurance subsidiary, was licensed to write property, disability, liability and worker's compensation insurance in the State of Utah. First Continental Life & Accident Insurance Company, an insurance subsidiary, wrote group term life and medical stop loss coverage.

ORGANIZATIONAL CHART



**WCG Investment, LP, was controlled by a limited partnership whose general partner was VWA, L.L.C. VWA, L.L.C. was ultimately controlled by A.M. Jamel, B. G. Hoyt, R. A. Veed and F. G. Wilson

Statutory Reporting

A review was made of copies of the various insurance holding company registration statements (Form Bs) filed by the Company for the years under examination. The review indicated that the Form Bs were filed effective May 2, 1995, May 1, 1996, February 12, 1997, and May 1, 1998. The Form B due May 1, 1998, was not received by the Utah Insurance Department until May 21, 1998, and had several deficiencies. The form was re-filed on August 7, 1998.

Management Agreements

There was an inter-company agreement executed January 1, 1997, between the Company and the various subsidiaries, whereby the Company provided the necessary personnel, work space, equipment and data processing services for use in connection with administrative, claims processing, accounting and other functions. The agreement stated that the costs and expenses will be allocated pursuant to the NAIC, "Uniform Classification of Expenses." This agreement was amended April 12, 1999, to clarify the wording regarding the allocation of cost. The affiliated companies agreed to pay the Company the cost of these services.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insurer under several insurance policies along with its subsidiaries companies.

There was a financial institution bond with an aggregate liability of $1,000,000, subject to a single loss limit of liability of $1,000,000 and a single loss deductible of $25,000. The NAIC suggested minimum amount of fidelity insurance for all affiliated companies is between $600,000 and $700,000.

The Company also participated in commercial lines, commercial catastrophe, and employment practices liability insurance. The directors and officers were provided a director's and officer's and company reimbursement policy. This policy had a $100,000 retention each claim. The limit was $5,000,000. Overlying this policy was an excess director's and officer's and company reimbursement policy.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had not made any changes to its insurance and retirement benefit plans since the last examination which was as of December 31, 1994.

The employee handbook, stated that eligible employees are offered various insurance and retirement benefits. Information summarizing these benefits are provided to the participating employees periodically. The benefit plans included medical, dental, vision, disability, life, accidental death and dismemberment insurance, retirement and a 401(k) savings plan.

According to the 1997 CPA's report and the draft of the employees handbook, the Company had a trustee, noncontributory defined benefit pension plan covering substantially all of the Company's employees.

STATUTORY DEPOSITS

To comply with the statutes of the various Insurance Departments, the following securities were on deposit as of December 31, 1998.

Type of Asset	Statement Value	Market Value	State
Deposits Not Held for Benefit of all Policyholders:			
US Treasury Notes	$ 273,320	$ 286,000	Idaho
US Treasury Notes	199,880	204,000	Montana
US Treasury Notes	503,119	525,000	Other
	976,319	1,015,000	
Deposits Held for Benefit of all Policyholders:			
US Treasury Notes	499,707	505,000	Utah
US Treasury Notes	1,301,504	1,313,000	Utah
US Treasury Notes	498,676	505,000	Utah
US Treasury Bond	99,961	104,000	Utah
US Treasury Bond	898,384	936,000	Utah
US Treasury Notes	399,703	416,000	Utah
	3,697,935	3,779,000	
Total	$4,674,254	$4,794,000	

The deposit with the Utah Insurance Department was in accordance with the requirements of U.C.A. § 31A-4-105. As set forth in U.C.A. § 31A-5-211, the Company was required to maintain a minimum deposit of $2,000,000.

INSURANCE PRODUCTS AND RELATED POLICIES

Policy Forms and Underwriting Practices

The Company is authorized to write disability, property, surety, liability, marine and transport, worker's compensation and vehicle liability.

New groups of medical coverage are underwritten using the medical data obtained from a short form application, medical information bureau and attending physicians statements. Anticipated relative medical costs are determined based on medical conditions identified in the underwriting process. An average risk factor is calculated for the entire group to determine the group's risk tier. This is then applied to the standard premium rate applicable to each risk category.

On renewal groups of medical coverage, the group's claim history is considered. In no case will the group rate increase more than two tiers over the previous years rate.

The Company introduced a deductible program for workers' compensation plans. The Company pays the entire claim and then seeks reimbursement of the deductible from the policyholder (employer).

Applications and other policy forms were reviewed and found to be in order.

Territory and Plan of Operation

The Company was licensed to do business in the following states: Idaho, Montana, Oregon, Utah, Washington, and Wyoming. The Company's certificate of authority was suspended in the State of Washington because it capital and surplus were less than that required by statute.

One of the products that the Company sold through utilities was water heater repair and replacement contracts. Other products were group accident and health and worker's compensation insurance.

Eighteen producers files were reviewed. Two were paid commissions and were not appointed. One was paid in one name, but was appointed in a different name. Failure to appoint an agent prior to the agent doing business for a company is not in conformity with Utah Code Annotated (U.C.A.) § 31A-23-219(1). Failure to file a Certificate of Appointment with the Utah Department is not in conformity with Utah Administrative Code (U.A.C.) Rule R590-101-4

Advertising and Sales Material

A review was made of the Company's advertisements. This review included the employer proposal packets. In the November 1998, issue of the "Utah Homebuilder's" the Company used a statistical reference without identifying the source of the statistics. Failure to identify the source of any statistic in advertisement was not in conformity with U.A.C. Rule R590-130-10(B). Another advertisement says that the Home Builders Association of Utah endorses the Company's worker's compensation program. Such endorsement was not in conformity with U.A.C. Rule R590-130-9(c), unless the endorsement actually exists.

Some advertisements used words which were not in conformity with U.A.C. Rule R590-130-7(A)(2). For example, one brochure exaggerated by using the statement, "unlike most indemnity..."

Treatment of Policyholders

A sample of 30 automobile files were randomly selected for review. These files were reviewed for effective contracts, documentation for billings, delays, reinstatements and other policy transactions. The Company has a unique paperless system of automobile policy files. All documents are scanned into the system and can be reviewed through a menu screen. Any document can be printed. The examiners were allowed to access the computer system and were able to trace data from the original application to the current status. No discrepancies were noted.

A sample of 30 workmen's compensation files were selected for review. Eighteen applications for insurance were not signed by either the applicant or the producer. Five cases had only one of the required signatures. Several files had inaccurate or incomplete data. Only one file had verification of salary from the Utah Department of Workforce Services. Others had worksheets listing the actual payroll. There had been some audits to verify the payroll.

Ten complaints were filed with the Utah Department of Insurance during the period covered by this examination. Two complaints filed were found to be justified.

On a average, it took 31 days to settle accident and health claims. Less than 2% were paid after 45 days.

A review made of files for documentation of the decisions, the time to settle and settlement practices. This review indicated that 12% of the medical claims were processed after 30 days. This was not in conformity with U.A.C. Rule R590-89-12.C. Two percent of these claims were not settled within 45 days after notification of the claim, nor were there adequate records as to why the investigation could not be completed within the 45 days. This was not in conformity with U.A.C. Rule R590-89-11. Twenty automobile claims were reviewed. One file did not contain a copy of a check and a denial letter was confusing. Six worker's compensation claims were reviewed of which one file showed the accident occurring one month after the accident date. The report that was sent to the Industrial Commission was not dated, nor signed by the adjuster.

There was no evidence that interest was paid on over due claims. This was not in conformity with U.A.C. Rule R590-89-7.T and U.A.C. Rule R590-89-112.C

REINSURANCE

Reinsurance Assumed

The Company assumed 100% of the 20% retention on automobile, property, dwelling fire and personal liability business written by Wasatch Fire Insurance Company, which was in the run-off stages.

The Company assumed from the Insurance Corporation of Hanover, a 100% quota share participation in respects to business classified as worker's compensation and employer's liability. Concurrently, there was a worker's compensation administration agreement executed effective on July 1, 1996.

Pursuant to an assumption agreement effective December 31, 1994, the Company assumed 100% of the liability for benefits payable under certain workers' compensation policies. The liability from this agreement was included in the financial statement under the caption, "Loss Portfolio Transfer."

Reinsurance Ceded

The Company ceded to Wasatch Crest Casualty Insurance Company a 95% quota share participation of the Company's ultimate net loss for new and renewal worker's compensation black lung policies that were effective on or after December 31, 1998, and a 95% share of the losses and loss adjustment expenses paid after the effective date on policies issued prior to December 31, 1998.

The Company had a first excess of loss agreement, on worker's compensation risks, with Swiss Re America Corporation for any loss in excess of $250,000 up to $750,000, and a second excess of loss agreement for losses in excess of $1,000,000 to a limit of $4,000,000. A third excess of loss agreement, for losses in excess of $5,000,000 to a limit of $45,000,000, had been executed with Swiss Re Life & Health America, Inc.

The Company reinsured with General Reinsurance Corporation its workers' compensation risks on a facultative excess basis, for the amount over its retention of $750,000, up to a limit of $30,000,000. This coverage does not apply to black lung or pneumoconiosis risks.

The Company's group medical risks were reinsured under the terms of two specific excess of loss treaties with American United Life Insurance Company in which the Company retained $100,000 per person. One treaty provided for a life time limit of $2,000,000 per person and the other provided a life time limit of $9,900,000 per person.

The Oregon non-standard automobile business was ceded to Insurance Corporation of Hanover, Reliance Reinsurance Corporation, Signet Star Reinsurance Company, and Underwriters Reinsurance Company on an 80% quota share basis. The extra contractual obligations, on a losses that were in excess of policy limits, were reinsured with Signet Star Reinsurance Company. The Company's retention was $250,000 with limits of $750,000.

There was a multi-line quota share agreement covering automobile, property and casualty lines in Utah. The Company ceded 80% of this coverage to Swiss Reinsurance America Corporation. Under an extra contractual obligation, losses in excess of policy limits the Company retained $200,000 and ceded the balance up to a limit of $800,000.

ACCOUNTS AND RECORDS

As of December 31, 1998, the Company's accounts and records consisted of a general ledger, journals, registers, statistical and other records normally maintained by a property and casualty insurance company. Many of the records were maintained in an electronic format on systems owned and operated by the Company. The software systems were primarily maintained on an IBM AS400 mainframe with an OS400 operating system.

The Company did not have an internal audit department. It used the services of a certified public accounting firm. A review was made of the audit reports and management letters prepared by the auditing firm for the years covered by this examination. The review did not disclose any material findings.

The Company provided an adjusted general ledger trial balance for the years covered by this examination. The adjusted trial balance for the year 1998 was reconciled to the financial statements contained in the 1998 annual statement.

Information provided by those responsible for maintaining electronic data processing equipment and informational systems indicated that business mission critical systems and non-critical applications were Year 2000 compliant.

FINANCIAL STATEMENTS

The financial statements included in this report are as follows:

Balance Sheet as of December 31, 1998

Statement of Income for the Year Ended December 31, 1998

Capital and Surplus Account from 1995 through 1998

The Notes to the Financial Statements are an integral part of the financial statements.

Wasatch Crest Mutual Insurance Company
BALANCE SHEET
As of December 31, 1998
ASSETS

	Amount	Notes
Bonds	$ 28,095,961	(1)
Common stock	5,669,078	(2)
Cash & short term investments	2,407,416	
Premiums and agents balances in course of collection (after deducting reinsurance ceded payable of $7,903,445)	-5,262,632	(3)
Bills receivable taken for premium	174,463	
Reinsurance recoverable on loss and loss adjustment expense payments	1,419,496	
Electronic data processing equipment	307,447	
Interest, dividends and real estate income due & accrued	425,581	
Total	$ 33,236,810	

LIABILITIES, SURPLUS & OTHER FUNDS

	Amount	Notes
Losses	$ 19,293,771	(4)
Reinsurance payable on paid losses and loss adjustment expenses	881	
Loss adjustment expenses	2,476,747	(4)
Contingent commissions	192,491	
Other expenses	1,214,986	(5)
Taxes, licenses and fees	132,132	(6)
Unearned premiums	1,116,730	
Amounts withheld or retained by company for account of others	562,781	
Provision for reinsurance	329,400	
Payable to parents, subsidiaries, and affiliates	4,405	
Aggregate write-ins for liabilities:		
Loss portfolio transfer	1,626,927	
Unearned interest	7,150	
Total Liabilities	26,958,401	
Surplus notes	2,930,673	
Unassigned funds (surplus)	3,347,736	
Surplus as regards policyholders	6,278,409	
Total	$ 33,236,810	

Wasatch Crest Mutual Insurance Company
STATEMENT OF INCOME
For the Year Ended December 31, 1998

Underwriting Income	
Premiums earned	$ 11,352,913
Deductions	
Losses incurred	5,169,262
Loss expenses incurred	2,275,728
Other underwriting expenses incurred	8,059,089
Total underwriting deductions	15,504,079
Net underwriting gain or (-)loss	-4,151,166
Investment income	
Investment income earned	1,583,686
Net realized capital gains	262,675
Net investment gain or (-)loss	1,846,361
Other income	
Net gain or (-)loss from agent's or premium balances charged off	-271,127
Finance and service charges not included in premium	559,783
Write-ins: Loss portfolio transfer reserve decrease (-)increase	-113,257
Total other income	175,399
Net income (-)loss before dividends to policyholders and federal income tax	-2,129,406
Dividends to policyholders	0
Federal and foreign income taxes	0
Net Income or (-)loss	$ -2,129,406

Wasatch Crest Mutual Insurance Company
RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT
From 1995 through 1998

Description	12/31/95	12/31/96	12/31/97	12/31/98
Surplus as regards policyholders prior year	$ 11,282,332	$ 14,150,460	$ 13,977,172	$ 7,043,657
Net income or (-)loss	4,029,977	962,458	-3,299,856	-2,129,406
Net unrealized capital gains	355,469	44,821	-1,647,183	-213,564
Change in non admitted assets	-66,865	-142,081	-198,679	284,341
Change in provision for reinsurance				-329,400
Change in excess of statutory reserves over statement reserves			-619,408	619,408
Extraordinary amounts of taxes prior years			-198,286	1,146,320
Prior year surplus adjustment			-970,103 *	-142,947
Approved payment on surplus certificate	-1,450,453	-1,038,486		
Change in surplus	2,868,128	-173,288	-6,933,515	-765,248
Surplus as regards policyholders current year	$ 14,150,460	$ 13,977,172	$ 7,043,657 *	$ 6,278,409

*The ending surplus as regards policyholders reported in the 1997 Annual Statement was $970,103 greater than the beginning surplus as regards policyholder reported in the 1998 Annual Statement. The difference represents a composite of various adjustments to accounts related to Company workers compensation business for prior periods.

NOTES TO FINANCIAL STATEMENTS

(1) BONDS $28,095,961

As of December 31, 1998, the Company's agreement with its investment custodian was not in compliance with U.A.C. Rule R590-178. A new agreement was executed May 3, 1999. The new agreement was in compliance.

(2) STOCKS-COMMON $5,669,078

The Company's investment in Common stock was increased by $134,120 for examination purposes. The increase represented an increase in Wasatch Crest Group common stock to reflect changes in the values of Wasatch Crest Group's insurance subsidiaries pursuant to examination. The $134,120 reflected a $802,363 reduction in unamortized goodwill relating to the acquisition of First Continental Life and Wasatch Crest Casualty Insurance Company The following schedule illustrates the components of the $134,117 increase:

Wasatch Crest Group, Inc.(WCG) equity value:	Annual Statement	Report of Examination
Cash	$ 172,278	$ 172,278
Capital & surplus of WCG subsidiaries:		
First Continental Life & Accident Insurance Company (FCL)	5,811,800	6,316,603
Wasatch Crest Casualty Insurance Company (WCC)	5,459,662	8,076,467
Wasatch Crest Insurance Company (WCI)	4,331,579	4,331,579
WCG capital and surplus	15,775,319	18,896,927
Percentage of WCM's share of WCG capital and surplus	30%	30%
WCM proportionate share of WCG capital and surplus	4,732,595	5,669,078
Unamortized Goodwill relating to the acquisition of FCL & WCC	802,363	
Reported on Schedule D - Part 2 - Section 2 of WCM 1998 Annual Statement	$5,534,958	5,534,958
Difference		$ 134,120

(3) PREMIUMS AND AGENTS BALANCES IN COURSE OF COLLECTION $ -5,262,632

The following schedule reflects the balances of this account and related changes per examination::

Description	Company	Examiner	Difference
Agents balances in course of collection	$ 1,579,912	$ 1,579,912	
Workers compensation accrual	734,024	459,155	$ -274,869
Reinsurance balances payable	-7,903,445	-7,227,973	675,472
Assets not admitted	-73,726	-73,726	
Net premium and agents balances	$ -5,663,235	$ -5,262,632	$ 400,603

The workers compensation premium accrual was decreased $274,869 for examination purposes to reflect the amount of the accrual that was not supported by adequate documentation.

Reinsurance balances payable was decreased to reflect a refund of overpayment of reinsurance premiums.

(4) Losses $19,293,771
(4) Loss adjustment expenses $ 2,476,747

The consulting actuarial firm of Taylor-Walker & Associates, Inc. examined the Company's reported reserves. The black lung block of workers compensation business was over reserved for losses and loss adjustment expenses by $131,571 and $6,156, respectively.

The firm made the following recommendations: The opining actuary is required to reconcile reserving data to Schedule P. "The Actuarial Report contains exhibits that show the reconciliation of the data used in their analysis to the Company's Annual Statement Schedule P. The paid loss and ALAE in the reconciliation exhibit showed the paid amount during 1998. The paid loss and ALAE reserves are the inception date (as of 12/31/1998) figures. The study does not directly display the tie between calendar year paid and inception-to-date paid. We recommend, that in conjunction with future reviews, the actuary more completely document the reconciliation of reserving data to Schedule P."

The effect of the above referenced adjustments on the Company's Federal income tax obligation has not been contemplated for the purposes of this report.

(5) OTHER EXPENSES $1,214,986

The Company had not provided a liability for the accumulated benefit obligation for its pension plan in its annual statement. A liability for this obligation was recognized for $336,651, for examination purposes.

(6) TAXES, LICENSES AND FEES $132,132

The liability for state premium taxes was increased by $11,081.

(7) SURPLUS AS REGARDS POLICYHOLDERS $6,278,409

For examination purposes, the Company's surplus was determined to be $6,278,409 or $324,718 more than reported in the 1998 annual statement filed with the Commissioner. The following schedule indicates changes to Company accounts pursuant to examination findings:

	Annual Statement	Examination	Surplus Change	Notes
Common Stock	$5,534,958	$ 5,669,078	$ 134,120	(2)
Premiums and agents balances	-5,663,235	-5,262,632	400,603	(3)
Losses	19,425,342	19,293,771	131,571	(4)
Loss adjustment expenses	2,482,903	2,476,747	6,156	(4)
Other expenses	878,335	1,214,986	-336,651	(5)
Taxes, licenses and fees	121,051	132,132	-11,081	(6)
Total changes in capital surplus			324,718	
Capital and surplus per Company			5,953,691	
Capital and surplus per examination			$ 6,278,409	

The Company's minimum capital requirement was $1,400,000 as defined in U.C.A. § 31A-5-211. As defined by U.C.A. § 31A-17 Part IV, the Company had total adjusted capital of $5,418,357. This was in excess of the authorized control level risk-based capital requirement of $2,543,043.

SUMMARY

The items of significance or special interest contained in this report are summarized as follows:

(1) There was a change in control of the Company's affiliates. **(AFFILIATED COMPANIES)**

(2) The Company's market conduct related operations were not in compliance with the provisions contained in the following: U.C.A. § 31A-23-219(1), § 31A-30-103; U.A.C. Rule R590-101-4, R590-130-10B, R590-130-9(c), R590-130-7(A)(2), R590-89-12.C, 590-89-11, R590-89-7.T, and R590-89-112.C. **(INSURANCE PRODUCTS AND RELATED PRACTICES)**

(3) As of December 31, 1998, the Company's agreement with its investment custodian was not in compliance with Utah Administrative Code U.A.C. Rule R590-178. However, a new agreement dated May 3, 1999, was in compliance. **(ACCOUNTS AND RECORDS)**

(4) Information provided by those responsible for maintaining the electronic data processing equipment and informational systems indicated that business mission critical systems and non-critical applications were Year 2000 compliant. **(ACCOUNTS AND RECORDS)**

(5) The Company's minimum capital requirement was $1,400,000 as defined in U.C.A. § 31A-5-211. As defined by U.C.A. § 31A-17 Part IV, the Company had total adjusted capital of $5,418,357. This was in excess of the authorized control level risk-based capital requirement of $2,543,043.

(6) Subsequent Events were: Effective August 1, 1999, Gordon B. Boyle stepped down as president and Orrin T. Colby Jr. was named President and CEO. **(MANAGEMENT AND CONTROL)**

The Company's certificate of authority was suspended in the State of Washington because its capital and surplus was less than that required by statute. **(TERRITORY AND PLAN OF OPERATION)**

The Utah Insurance Department was advised that a material loss event had occurred in that the cumulative net operating loss of the Wasatch Crest Group and its subsidiaries had exceeded $3,000,000 on a GAAP accounting basis. **(AFFILIATED COMPANIES)**

CONCLUSION

The assistance and cooperation extended during the course of the examination by the officers, employees and representatives of the Company is acknowledged.

In addition to the undersigned, Mr. Dan Applegarth, CFE, Senior Financial Examiner, Mr. Faanu Laufiso, Financial Examiner and Mr. Brian Hansen, AIE, FLMI, CFE Market Conduct Examiner from the Utah Department of Insurance participated in the examination.

Respectfully submitted,

Gene Davis

Gene Davis, CFE, CIE
Examiner-in-Charge
Financial Examiner
Utah Insurance Department